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ABSTRACT

Potential negative effects that cuts in the Guaranteed Student Loan (GSL) program might have on the financial stability of colleges and universities are addressed. The recent rapid growth of the GSL program results from the fact that it is included in that part of the credit control system excluded from appropriation limitation. Media reports suggest that the Reagan Administration proposed reducing guaranteed loans by $20 billion to help reduce off-budget borrowing. In comparing the growth of the federal student aid programs from funding years 1970-1981, it was found that the largest increase was in the GSL program. A comparison of federal student aid dollars to total tuition and fees collected shows the convergence of total fees collected and federal student aid funds. Since 1970, there has been an increasing amount of federal dollars going to students, which has helped to pay tuition, particularly at independent colleges and universities. Expansion of the Auxiliary Loan program (formerly the Parent Loan program) probably will guarantee funds for what may be a transition period and allow students to complete their studies at institutions they currently attend. Reductions in the GSL program would increase the need for higher family contributions, and to some extent students will choose lower-cost institutions. Institutions in states with declining enrollments whose students are dependent on large amounts of financial aid are likely to face extreme financial problems and a real threat to survival in the next few years. (SW)

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Cutbacks in Student Aid

New Threat to Fiscal Stability

by LESTER BROOKNER

Lester Brookner is vice president for business affairs at Miami-Dade Community College. He is chairman of NACUBO's Student-Related Programs Committee. This article is adapted from testimony presented before the Florida State Legislature.

For the last 18 months, NACUBO's Student-Related Programs Committee has monitored congressional proposals for reducing federal student financial assistance programs and has disseminated this information to the NACUBO membership. The purpose of this article is to alert colleges and universities to the potential negative impact that such cuts in the Guaranteed Student Loan (GSL) program might have on their financial stability.

GSLs and Off-Budget Borrowing

The funding of the Guaranteed Student Loan program must be seen in a national context. A recent *Wall Street Journal* editorial on federal off-budget borrowing made the point that it is the total of federal borrowing, not only the deficit, that affects the credit markets. Federal borrowing competes with private borrowing in the marketplace and is one of the factors causing high interest rates.

Exhibit 1 shows how this amount has increased in the last 11 years, from $17.9 billion in 1970 to $156.9 billion in 1981, with a large increase in total borrowings since 1974. Federal student loan programs, along with other federal loan programs are included in all four classifications—the deficit, direct loans, guaranteed obligations, and sponsored agency obligations. Excluding the deficit, the total of all new federal loans and obligations for 1981 was $98.8 billion. Of this amount $6.9 billion, or almost 7 percent of the total, resulted from student loans. The total of outstanding student loans at the end of 1981 was $30 billion.

The rapid growth of the GSL program over the last few years results from the fact that it is included in that part of the credit control system excluded from appropriation limita-

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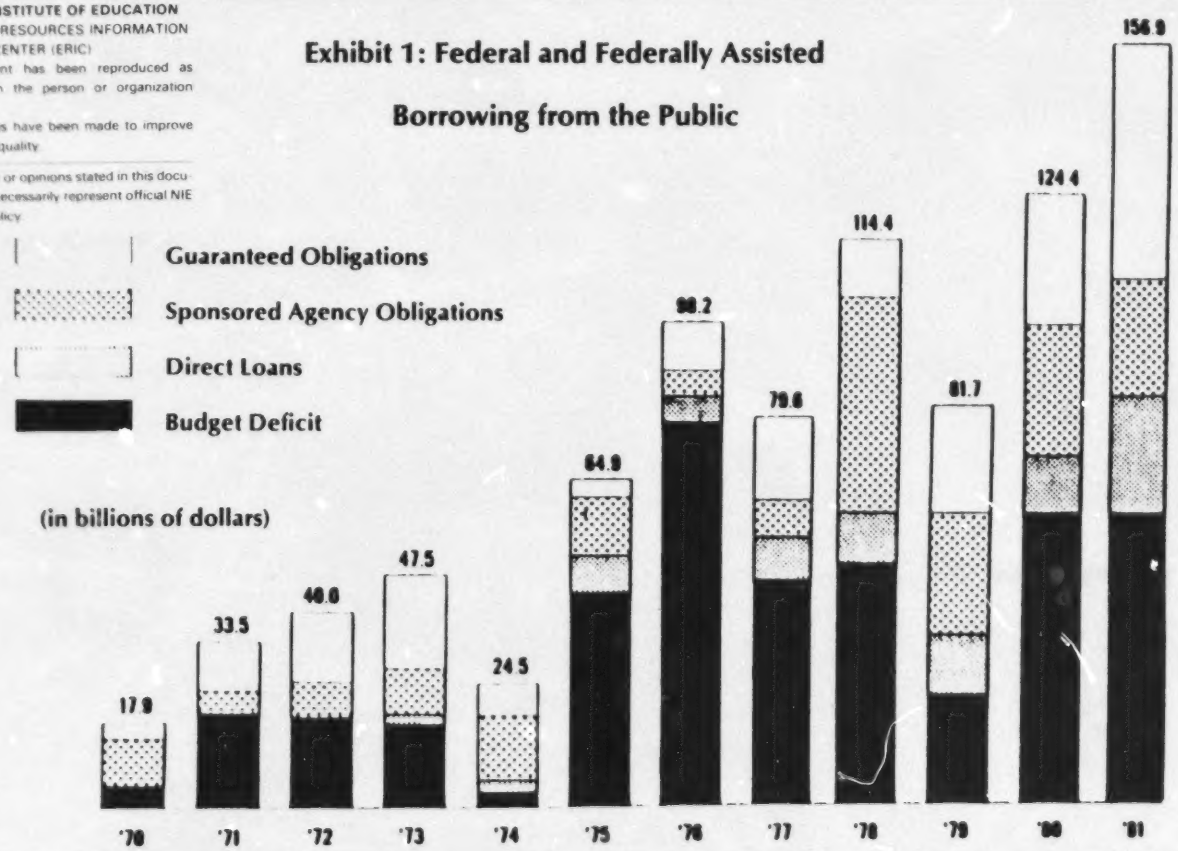
Exhibit 1: Federal and Federally Assisted Borrowing from the Public



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tion. For the GSL program control is exercised only through authorizing legislation rather than through both authorizations and appropriations. This means that the appropriation is based on money spent, while in most government programs the reverse is true. The *Wall Street Journal* reported that the Reagan Administration proposes reducing guaranteed loans by $20 billion to help reduce off-budget borrowing.

GSL Growth Compared to Growth of Other Aid

Exhibit 2 shows the growth in federal student aid programs from 1970 to 1981. The annual total award increased from $1.3 billion in 1970 to $11.4 billion in 1981 (nearly a ninefold increase). During the three-year period from passage of the Middle Income Student Assistance Act of 1978, the amount of federal student loan and grant aid dollars more than doubled. Because of the obvious attractiveness of total interest subsidy while a student is in school, the largest increase was in the Guaranteed Student Loan program. The subsidy occurred at a time when interest rates were at the highest conceivable levels. For the fourth quarter of 1981 the federal government was paying participating lenders 19.5 percent on these loans.

In the Office of Student Financial Assistance Program Book (July 1981), the fiscal 1981 appropriation for the Guaranteed Student Loan program is listed at $1.9 billion. Because actual expenditures were in excess of $2.8 billion, the appropriation will be increased to the expenditure level. The $900 million increase is equal to the appropriation for the College Work-Study and Supplemental Educational Opportunity Grant programs and is caused in part by high interest rates.

In 1981, servicing costs for the Guaranteed Student Loan program will be more than $2.8 billion. To illustrate the magnitude of that figure, general revenue collections for the state of Florida were less than $4.1 billion.

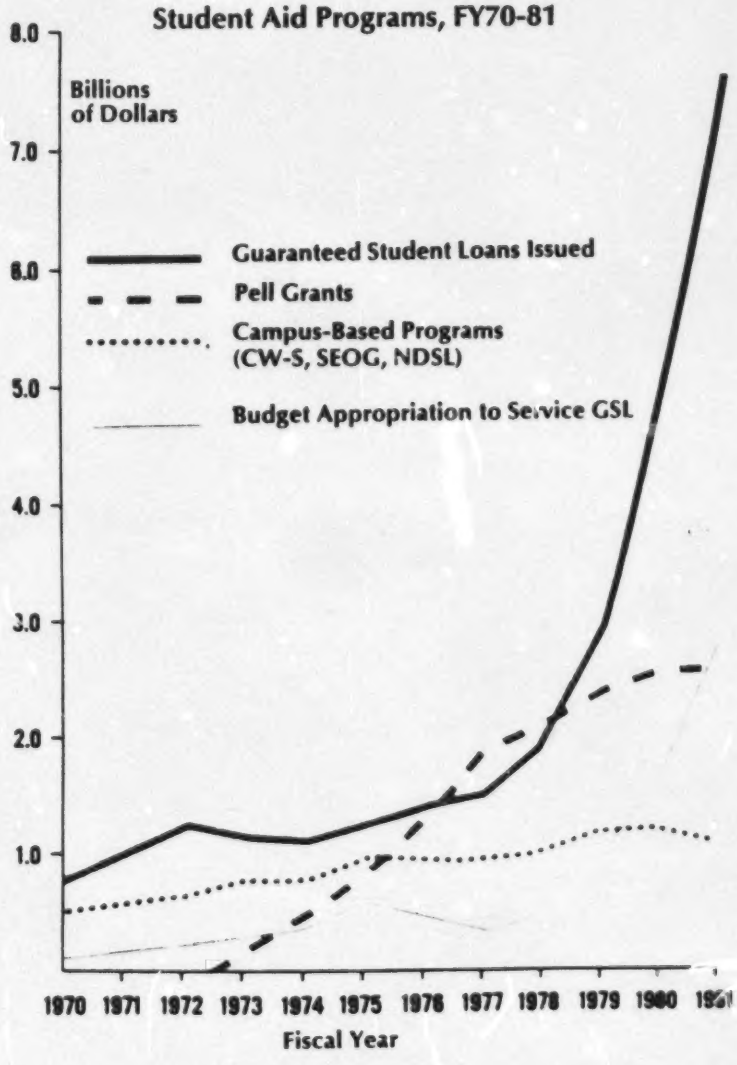
GSLs and Tuition Increases

Exhibit 3 compares federal student aid dollars to total tuition and fees collected. A purist would criticize these comparisions because not all federal student aid dollars are spent on tuition and fees. Some federal programs are forward-funded so that funds appropriated one year will be spent in the following year. Nevertheless, there can be no doubt that since 1970 an increasing amount of federal dollars has gone to students and has helped to pay tuition, particularly at independent colleges and universities.

The exhibit clearly shows the convergence of the lines representing total fees collected and federal student aid funds. The *Wall Street Journal* reported in 1981 that the 20 most expensive institutions raised their tuition and fees an average of about 16 percent (almost twice the rate of inflation). According to the American Association of State Colleges and Universities, tuition charged to state residents at state institutions rose, on average, 14.8 percent for the 1981-82 school year. With increased federal student aid dollars, particularly Guaranteed Student Loans, students had additional funds to cover these increases.

In the early 1970s, there was great concern about a so-called "depression in higher education," with accompanying forecasts that many institutions would not survive their financial difficulties. Because of the significant expansion of federal student aid programs and the ability of colleges and universities to control expenditures, the predictions were premature.

Exhibit 2: Growth of Federal Student Aid Programs, FY70-81



GSLs in a Period of Uncertainty

The current fiscal year is one of transition. The Omnibus Budget Reconciliation Act of 1981 placed certain restrictions on the Guaranteed Student Loan program, but at the same time expanded the Parent Loan (now Auxiliary Loan) program.

In the Guaranteed Student Loan program, the in-school interest subsidy will continue for students with family incomes of less than $30,000, and for students with family incomes of more than $30,000, if financial need is demonstrated. In one sample state the family incomes of approximately 50 percent of the students are less than $30,000 and 70 percent are less than $40,000. It is currently estimated by the Department of Education that Guaranteed Student Loans will not decrease significantly from the record 1981 levels unless there are further changes in the program.

The Auxiliary Loan program will probably result in loans of more than $1.5 billion. The total dollar loan volume for 1982 will increase from $7.8 billion to more than $9 billion. Depending on other cuts, this program at least guarantees funds for what may be a transition period and allows students to complete their studies at institutions they currently attend.

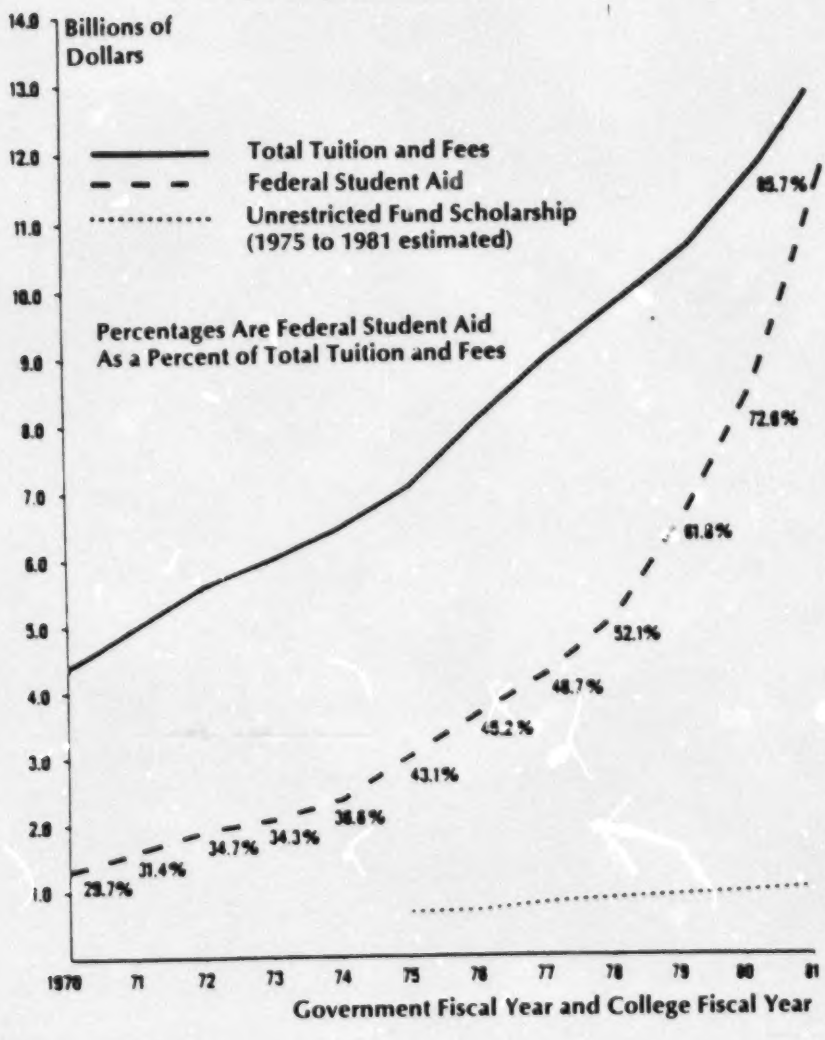
The revised Auxiliary Loan program applies to independent undergraduate students and graduate students, as well as parents. Parents may borrow the expected family contribution at 14 percent interest; repayment begins no more than 60 days after the date of disbursement. There is a $3,000 annual limit and a $15,000 aggregate limit.

The independent undergraduate student may borrow $2,500 a year using both the student and auxiliary loans. Payment of the 14 percent interest on these loans can be delayed until the repayment of principal, which is deferred as long as the individual remains a full-time student.

Reducing Pell Grant awards will affect independent and residential public institutions that enroll large numbers of needy students. Currently, the maximum award is $1,670. If this maximum were reduced to $1,300, those institutions, where costs are higher and students are receiving the maximum grant, would suffer.

A bothersome aspect of the Guaranteed Student Loan program is that the subsidy commitment is for the life of the loan. The mandated appropriation from operating budgets includes payments for the past student loans. Reducing the dollar amount of new loans would not reduce the appropriation proportionately, and the Guaranteed Student Loan appropriation will continue to increase as other need-based programs are reduced. The rumored 10 percent origination fee would provide a method of reducing the appropriation, but this would also leave students with fewer dollars to spend.

Exhibit 3: Comparison of Federal Student Aid and Total Tuition and Fees Collected, 1970 to 1981



Importance of GSLs to Financial Stability

Exhibits 2 and 3 must now be linked. There is no doubt that federal student financial aid paid to students and to institutions becomes a significant part of operating budgets. If the Guaranteed Student Loan program is reduced, a reasonable portion of the dollars will be replaced by family contributions, and to some extent students will choose lower-cost institutions. Generally, there will be far greater reluctance to increase fees because of a fear of losing students to lower-cost institutions and, if fewer dollars are collected from students, fewer dollars are available for the operating budget.

A "depression in higher education" is likely and will be most severe in states with declining enrollments. Institutions in the declining enrollment states enrolling students who are dependent on large amounts of financial aid are likely to face extreme financial problems and a real threat to survival in the next few years.

Accompanying GSL program reductions will be reductions in other federal financial aid programs. Each institution must anticipate the effect of different forms of aid reduction on its students. Equally important, each institution must plan, if possible, to find an alternate source of aid or to trim the operating budget.

As the current recession has different effects on each state, the new "depression in higher education" will have different effects on each institution according to location as well as type. ♦

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